

## Self Directed Accounts and the PERSI Total Return Fund

This document includes important information concerning one investment option available for your PERSI Choice Plan 401(k) Account – the PERSI Total Return Fund. You may elect to allocate any portion of your PERSI Choice Plan Account for investment in the PERSI Total Return Fund. The PERSI Total Return Fund is the default option under the PERSI Choice Plan. This material includes information about the management of assets in the PERSI Total Return Fund and how the assets are valued for account purposes. Please read this information carefully before making investment choices, especially if you are considering leaving or reinvesting any portion of your PERSI Choice Plan Account in the PERSI Total Return Fund.

The Public Employee Retirement System of Idaho (PERSI) administers several public trust funds, including the Public Employee Retirement Fund, the Firemen's Retirement Fund, and the PERSI Choice Plan, which includes a gain sharing account and a 401(k) account. PERSI had approximately \$9.6 billion under management as of June 30, 2006, the end of the PERSI 2006 fiscal year.

PERSI's basic mission as stated in its Investment Policy is "to provide funds to meet the obligations of the Public Employee Retirement System of Idaho (PERSI) while incurring the appropriate amount of risk consistent with attaining that goal." PERSI's "obligations" are the benefits accrued by the Participants in the system. The system covers all state employees, all teachers and school district employees, and those local public employees whose employers (counties, municipalities, etc.) have decided to join the system.

A Retirement Board comprised of five members appointed by the governor and confirmed by the legislature to serve staggered 5-year terms governs PERSI. Three are business people not in public employment, and two are active public employees with at least 10 years of service in the system. The Board meets once a month, and considers both benefit and investment matters at each meeting. PERSI's Chief Investment Officer reports to the board monthly and informally between board meetings. Brief profiles of the members of the Retirement Board and the Chief Investment Officer are provided in Appendix C hereto. The composition of the Retirement Board and the identity of the Chief Investment Officer may change from time to time. Such changes, as well as any material changes in the biographical information relating to such persons, will be reflected in PERSI's Annual Financial Report and on PERSI's Web site.

A Statement of Investment Policy, which is reproduced in the Annual Report and is available on the website or in hardcopy upon request, governs PERSI.

With a few minor exceptions, all of PERSI's investment activities are accomplished through outside managers. The Board is responsible for investment policy and structure, portfolio strategy, asset allocation, strategic policies, the hiring of managers and other agents or consultants to carry out those policies and strategies, and the monitoring of the managers, consultants and other agents. The Board delegates various duties to the Chief Investment Officer and PERSI staff. In the event there is a material change in the policies, structure or strategy of the Board with respect to these matters, such changes will be reflected in an update of this document on PERSI's Web site.

### Active and Passive Investment Management

As a result of many considerations, PERSI uses both active and passive asset management, leaning toward the use of passive management for the core, more efficient markets (i.e., U.S. equity market, and the general U.S. government and corporate bond market). PERSI tends to use more active management in the less efficient markets where there is a greater potential for added return or short-term risk reduction, and where indices or index funds have some deficiencies (i.e., small cap stocks, international equities, emerging markets, and global stock and bond management). In addition, PERSI tends to use active managers with broad, rather than specialized benchmarks (such as EAFE for international managers, the Lehman Aggregate for active bond managers, and the Russell 2000 for small cap managers). PERSI also employs global managers to provide exposure to asset types not included in the assigned asset classes and to provide ongoing adjustments to PERSI's long-term asset allocations as necessary and appropriate to attain periodic goals.

### Criteria for Hiring and Firing Managers

PERSI evaluates potential investment managers based on the managers' expertise, fees and firm characteristics, and how the potential managers complement the relevant attributes of the other investment managers. PERSI leans toward giving managers broad mandates rather than requiring managers to conform to narrow mandates.

Guidelines for investment managers that set the range of characteristics of a normal or expected portfolio are established in advance. Although a manager is granted certain latitude for exceeding such characteristics, PERSI will request explanations when the portfolio significantly wanders outside of its expected range. The explanations provided and PERSI's analysis of the relevant circumstances will determine PERSI's response. Such response could include a formal review of the manager's status with PERSI.

PERSI expects that a manager will manage the portfolio in the expected manner and with the capabilities and personnel as when originally hired. Although short-term performance is tracked, only longer-term poor performance (rolling 3-5 year performance against both benchmarks and peers) triggers a formal review.

External consultants monitor the investment activity. The result of this monitoring activity is reported to the Board. Both the investment managers and external consultants are monitored and subject to formal review and/or replacement if PERSI believes it is to the overall benefit of PERSI. Any changes or replacements will be updated in the Annual Financial Report available on the PERSI Web site.

#### **PERSI Total Return Fund**

The PERSI Total Return Fund is comprised of all the investments making up the Public Employee Retirement Fund. Participant investments in the PERSI Total Return Fund are made at the affirmative election of the participant, or by operation of the default provision because no effective investment decision has been made. Investment in the PERSI Total Return Fund is denominated in units. Accordingly, any allocation of a PERSI Choice Plan Account to the PERSI Total Return Fund results in the PERSI Choice Plan Account acquiring the number of units of the PERSI Total Return Fund determined by dividing the then applicable price of the PERSI Total Return Fund unit into the amount of the allocation. The procedures applicable to the allocation of PERSI Choice Plan Account funds into and out of the PERSI Total Return Fund are described in other documents.

The daily unit value of the PERSI Total Return Fund is determined by Mellon Bank, N.A. ("Mellon") pursuant to a Global Custody Agreement in effect between Mellon and PERSI. The daily unit value is determined by recalculating the net asset value (NAV) of all components of the PERSI Total Return Fund after each business day. If a new NAV cannot be determined using standard procedures, the most recent available price will be used. Some of the assets in the PERSI Total Return Fund are not revalued on a daily basis because the change in their value is generally determined on a periodic basis using industry-accepted standards such as, for example, real estate appraisals. These include private real estate holding and private equity investments. Because these types of holdings represent a small portion of the PERSI Total Return Fund, the value of these assets is included in the daily unit value based on the latest available valuation, usually performed quarterly. More detailed information regarding PERSI's real estate and private equity holdings is available in PERSI's latest Annual Financial Report.

Although Mellon is responsible for determining the value of a unit, it is not responsible for a misstatement of the value of a unit if the misstatement occurs as a result of (1) utilization of a price provided by PERSI or an investment manager, (2) a breakdown in customary price feeds due to causes beyond Mellon's reasonable control, (3) certain errors in a price provided to Mellon, and (4) other causes beyond Mellon's reasonable control. If there is a material misstatement of the price of a unit of the PERSI Total Return Fund, Mellon will restate the unit price and appropriate adjustments shall be made to participant accounts.

Information concerning the investment classes and the identity of investment managers utilized by PERSI is provided in Appendix A hereto. Please be aware that while the information provided in Appendix A is current as of the date of this document, PERSI reserves the right to terminate existing investment managers and consultants, appoint new investment managers and consultants, and change the allocations among managers. Information on investment managers and consultants will be updated in the Annual Report available on PERSI's Web site at [www.persi.state.id.us](http://www.persi.state.id.us).

Information concerning the allocation of assets by type of manager is provided on Appendix B hereto. Please be aware, while such information is correct as of the date of this document, PERSI may adjust such allocation, as it deems appropriate. Allocation updates also will be provided in the next subsequent Annual Report and on PERSI's Web site.

*Effective as of June 2006*

PERSI MANAGERS  
by Asset Type

U.S. Eq.	Global Eq.	Other Eq.	International Eq.	Fixed Income
<b>Large /All Cap</b>	Barings	<b>Real Estate</b>	<b>Developed</b>	<b>Passive</b>
Mellon S&P 500	Cap Guardian	Adelante	Mondrian	State Street G/C
Tukman	Bernstein	(Public REITs)	Rowe Price	TIPS
Peregrine	Zesiger	Koll-PER	Mellon EAFE	<b>Global</b>
<b>Small Cap</b>	Brandes	Prudential	<b>Emerging Markets</b>	Barings
Mellon Midcap		Olympic IDA	Genesis	Bridgewater
Mellon R2000		<b>Private Equity</b>	Bernstein	Fidelity
Mtn. Pacific		Individual	<b>Currency Hedge</b>	Western
TCW Dom		Limited	Pareto Partners	<b>Mortgage</b>
Donald Smith		Partnerships		Idaho Mortgages
				D.B.F. MBS
				Clearwater

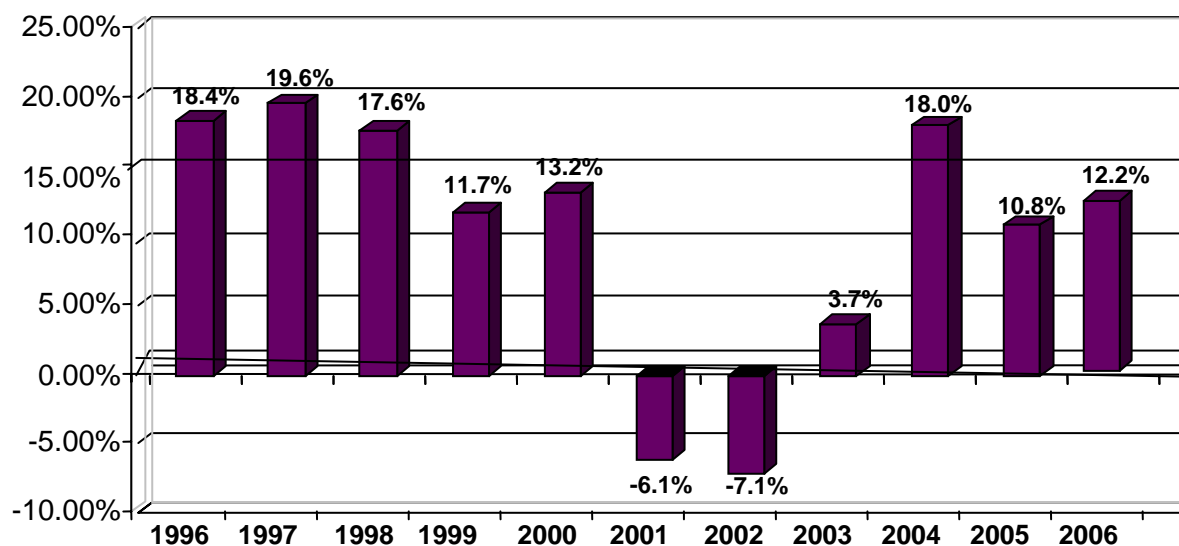
TOTAL RETURN FUND

General Asset Allocations by Asset Type as of June 30, 2006. The table below shows both actual and target allocations.

Asset Class	Strategic Normal	Strategic Ranges	Allocation Year Ended June 30, 2006
U.S. Equity	54%	44% - 57%	56.2%
International Equity	15%	12% - 25%	15.7%
Total Equities	69%	66% - 75%	71.9%
Fixed Income	30%	27% - 33%	27.8%
Cash	1%	0% - 5%	0.3%

More detailed information concerning allocations and managers is available in PERSI's latest Annual Financial Report.

*HISTORICAL RETURNS BY FISCAL YEAR*



## Retirement Board and Key Investment Staff Profile:

### PERSI Retirement Board

PERSI's Retirement Board consists of five members appointed by the Governor to fulfill 5-year terms. Two members of the Board must be active members of the system with at least 10 years of service. The other three members are selected from the private sector. Current Board members:

**Jody B. Olson:** Of Counsel, Hawley Troxell Ennis & Hawley

Chairman - Appointed: July 1, 1987 Term expires: July 1, 2007

In his 16 years on the Board, Mr. Olson has led PERSI through a period of tremendous growth. Before joining Hawley Troxell Ennis & Hawley, Mr. Olson was Vice President of Corporate Development at TJ International. Mr. Olson serves on many corporate and civic boards. He holds a Juris Doctorate and is also a Certified Public Accountant.

**J. Kirk Sullivan, Ph.D.:** Partner, Veritas Advisors

Appointed: July 1, 1996 Term Expires: July 1, 2011

Mr. Sullivan has more than 40 years of experience in general management, contract negotiations and public affairs. Prior to starting Veritas Advisors he was Vice President of Governmental and Environmental Affairs for Boise Cascade Corp. He also holds positions as a Key Bank of Idaho Director, and member of the St. Alphonsus Regional Medical Center Board of Trustees.

**Pamela I. Ahrens:** Director, Idaho Department of Administration

Appointed: July 1, 1998 Term Expires: July 1, 2008

As a member of the Governor's Cabinet for the past six years, Ms. Ahrens serves as the State's Chief Information Officer and oversees design construction and facilities management, insurance management, and purchasing for the State of Idaho. She has been an educator, a business owner, and was an Idaho State legislator for 14 years. Ms. Ahrens has acquired a multi-dimensional perspective and knowledge of government and its potential toward enhanced productivity.

**Clifford T. Hayes:** Post Falls Police Chief

Appointed: July 1, 2004 Term Expires: July 1, 2009

Mr. Hayes has been the Chief of Police for the City of Post Falls, Idaho, since 1987. He previously served as President of the Idaho Chiefs of Police Association, and is currently a board member for the Idaho Law Enforcement Telecommunications System, Interstate Business Center Association, and the Post Falls Community Volunteers. Mr. Hayes attended the National F.B.I. Academy in Quantico, Virginia.

**Jeff Cilek:** Executive Director, St. Luke's Health Foundation

Appointed: July 1, 2005 Term Expires: July 1, 2010

Mr. Cilek has been active in the Boise community for many years, having served on the Federal Lands Task Force Working Group and on the Board of Directors for the Downtown Boise Association, the Boise Metro Chamber of Commerce, Earth Share, and the Idaho Make-A-Wish Foundation. He also served on the Board of Advisors for the National Fish and Wildlife Foundation and the Governor's Task Force for the Environment. Before joining St. Luke's, Mr. Cilek was a vice president with the Peregrine Fund. He holds a bachelor's degree in finance from the University of Iowa.

**Chief Investment Officer:** Robert M. Maynard

Before joining PERSI in 1992, Mr. Maynard was Deputy Executive Director for the Alaska Permanent Fund for 4 years, and served 12 years as a State of Alaska Assistant Attorney General. Other investment related activities include:

- Board of Directors - Boise State University Foundation
- Board of Trustees - Albertson College of Idaho
- Finance Committee - Idaho Human Rights Education Center
- Member, Governor's Special Commission for Endowment Fund Reform (1997-1998)
- Investment Advisor - Alaska Permanent Fund Corporation
- Investment Committee - Institute for Electrical and Electronic Engineers

Mr. Maynard has lectured on Finance and Investment at the University of Alaska, Boise State University, and the Institute for Fiduciary Education. He is often a guest speaker at investment seminars and frequently advises other organizations on investment and pension fund matters, including the Sri Lanka Pension Fund, Thailand Pension Fund, State Council for the People's Republic of China, Hawaii Community Foundation, Asian Development Bank (Manila, Philippines), and the State Insurance Company of Albania (Tirana, Albania).